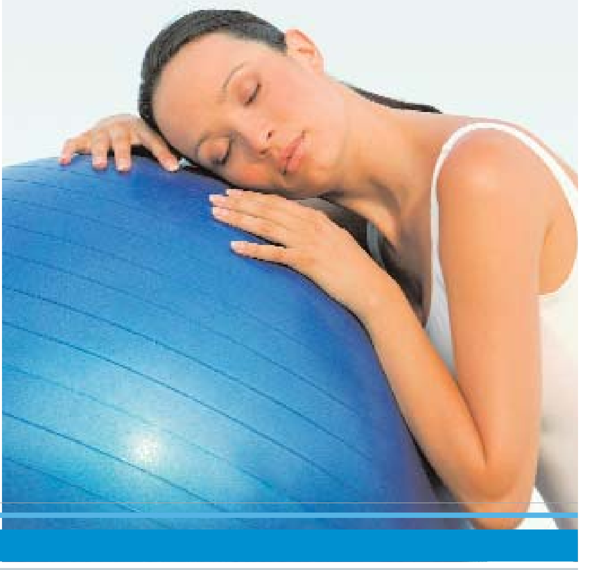
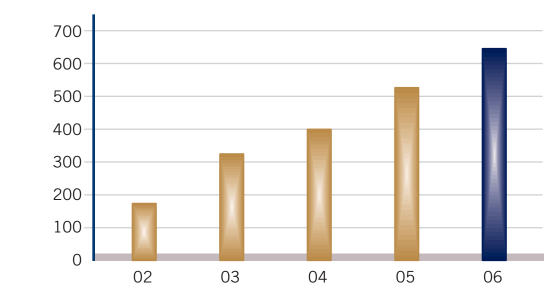
Proof 7 • 21 February 2007

Discovery

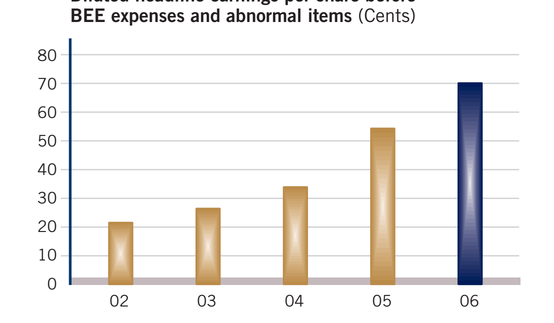


Unaudited interim results for the six months ended **31 December 2006**

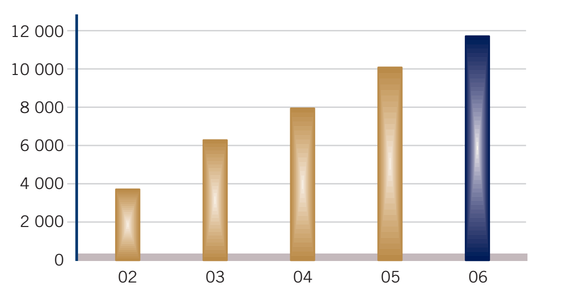
Operating profit before BEE expenses (R million)



Diluted headline earnings per share before BEE expenses and abnormal items (Cents)



Embedded value (R million)



Operating profit before investment income **+40%** to **R530 million**

Diluted HEPS before BEE **+29%** to **70,1 cents per share**

Destiny operating losses **reduced** by **59%** to **R33 million**

PruHealth achieves **100 000 members** in January

New business **+19%** to **R2,5 billion**

Discovery Health members under management **exceed 2 million** in January

INTRODUCTION

The period under review has been a particularly successful one for Discovery in respect of two fundamental issues. Firstly, the financial performance has been pleasing, reflecting the consistent and strong performance of Discovery's underlying businesses. Secondly, significant and fundamental foundations were built for future growth initiatives.

Discovery's core purpose of "making people healthier and enhancing and protecting their lives" has become more relevant with time and falls squarely in line with the important global trends of consumerism and wellness. Discovery's view is that its ability to structure its businesses on the foundation of engaging its clients and enhancing their lives through health, places it in a unique position to add value to its clients and remain sustainably competitive.

For the period under review, group operating profit increased by 40% before investment income, tax and the impact of its BEE transaction to R530 million (2005: R379 million). Diluted headline earnings per share before the impact of the BEE transaction rose 29% to 70.1 cents (2005: 54.3 cents). New business grew to a record-breaking level of R2.5 billion.

DISCOVERY HEALTH

Discovery Health's performance over the period was robust and pleasing. Through growth, efficiency and a focus on operational and service excellence, a substantial increase in operating profit was achieved.

Operating profit before investment income rose by 29% to R342 million (2005: R265 million), with new business improving to R1 233 million (2005: R1 211 million). Improved efficiencies allowed staff headcount to reduce by 5% to 2 902 (2005: 3 055), despite a 7% increase in the number of covered lives, which rose to 1 981 867 (2005: 1 844 697). Lapse rates also improved – down from 2.6% to 2.1%.

Given the size of Discovery Health and that of the Discovery Health Medical Scheme, it is fundamental that Discovery Health transforms its value proposition from being just a funder in the health care system towards reaching into the system and creating structures that ensure members get access to a health care system of exceptional quality, ease of use and one that costs less. During the period under review, the formation of the Discovery GP Network was a key element of this strategy. The objective of this strategy is to work constructively with all health care professionals in order to build a robust and effective health care system for members of Discovery Health. From a product and strategy perspective, the results will be a significant competitive advantage, resulting in further growth.

DISCOVERY LIFE

Discovery Life continued to perform well over the period. The company grew operating profit by 29% and annualised new business premium income rose 22% to R480 million (2005: R392 million). The value of in-force business has also increased strongly, growing by 22% to R5 068 million (2005: R4 151 million). Gross inflows improved from R820 million in the previous period to R1 107 million – an increase of 35%.

The company's strategy of maintaining and enhancing its leadership position in the pure life assurance market (protection market) was well demonstrated over the period. Its approach of innovation and differentiation in its products, so that they add value to clients in what is otherwise a commodity market, was illustrated by the roll-out of products such as the DiscoveryCard Integrator. The DiscoveryCard Integrator provides unique value to clients whilst ensuring competitive price points and superior profitability to shareholders. It also demonstrates the effectiveness of Discovery Life's strategy of integrating life insurance with consumer-engagement and wellness. Integrated policies have a higher average premium, higher average number of ancillary benefits, lower loss ratios and better persistency levels than corresponding non-integrated policies. During the period under review, the DiscoveryCard Integrator amounted to 30% of new business produced by Discovery Life. The product's excellent progress to date bodes well for the future.

In June 2005, Discovery Life launched the Discovery retirement Optimiser as a first niche step into the investment market. During the period under review, considerable product and infrastructure development was undertaken in preparation for a substantial launch into the mainstream long-term investment market. Discovery Life is confident and optimistic of its potential in this market.

In the UK, Discovery Life continues to work with the Prudential in testing its products in the UK protection market. The current progress of these products creates a future platform for Discovery Life to further penetrate this significant and promising market.

PRUHEALTH

PruHealth's growth exceeded expectation and underscores Discovery's confidence in its ability to make an impact in the UK private medical insurance market. In addition, the success of PruHealth reflects Discovery's excellent working relationship with the Prudential plc and the ability to coalesce the best of both organisations for the benefit of clients. PruHealth achieved strong new business growth in the period, up 260% from R77 million to R277 million. The number of lives covered grew by 277%, while operating losses increased to £9 million (2005: £6 million).

The number of lives covered exceeded 89 000 by the end of the period under review and had grown to 100 000 by the end of January 2007. The increase in operating losses is consistent with the growth and associated acquisition costs incurred in achieving it, as well as the significant investments made in the initiatives to drive PruHealth going forward. As a consequence of this growth, after the period under review, PruHealth entered into a reinsurance contract to mitigate risk and provide relief for the large acquisition costs incurred.

The strategy going forward is not only to grow the business significantly, but also to maximise the quality of the business transacted, and its resulting profitability. PruHealth has embarked on clearly defined product and distribution strategies for the key market segments: individual, corporate and SME. For the individual market, PruHealth has been able to benefit from a multi-distribution channel approach, encompassing both the direct-to-consumer and individual broker markets. PruHealth's direct consumer advertising and online capabilities to transact new business have been particularly successful. In the SME market, on the back of product enhancements announced in July, PruHealth is in the process of expanding distribution with single line broker distribution deals and plans to roll out a franchise-based distribution network. In the corporate market, PruHealth has just introduced the new "Vitality Funding" product. The model enables employers and employees to share the cost of health care, with the employees' contributions reducing as they engage more in managing their health. This approach reduces the immediate cost of the product for the employer and provides strong incentives for employees to manage their health. The early market feedback is positive.

DESTINY HEALTH

Destiny Health's performance over the period was in line with expectations, cutting operating losses by 59% reflecting the consequence of a successful period of stabilisation. New business grew by 10% to $65 million US, while membership reduced by 7% to 59 181 from 63 704 in the previous period, as a result of lapses among poor-performing groups.

The previous 18 months have been a particularly difficult period for Destiny Health and Discovery made its strategy clear that the business would be stabilised and turned around with operating losses not exceeding 5% of the group's overall operating profit. During the period, a new management team focused successfully on bringing down the elevated loss ratios, securing competitive network discounts, restructuring the strategic partnership with the Guardian Life Insurance Company of America and Tufts Health Plan and cutting operating costs within Destiny.

The initial results show promise, in that the business has not only reduced operating losses, but it has also created robust foundations to grow to profitability going forward. While Discovery is optimistic about the potential for its business model in the US, it is also keenly aware of its limited success in this market to date and therefore its view of Destiny's future prospects remains a cautious one.

VITALITY

Vitality's performance over the period exceeded expectation both financially and in terms of its impact on Discovery's clients and its other businesses. Gross inflows increased by 13% to R355 million (2005: R315 million), with operating profit up 63% to R26 million (2005: R16 million). The number of primary DiscoveryCard-holders increased by 49% in the period to 353 541 (2005: 237 430).

Vitality is the manifestation of Discovery's vision of making people healthy. During the period under review, intensified focus was applied to the data and experience of Vitality to ascertain precisely the triggers that are working to make people healthier – and how best to use this in Discovery's other businesses. It is believed that this strategy will ensure that Discovery's health and life insurance offerings are structurally more appropriate to its clients and more competitive from a market perspective. During the period, Vitality launched the WellPoint suite of products aimed at making companies healthier and more productive. WellPoint is a substantial product suite that brings together HIV management, employee assistance programmes, preventive screening and absenteeism management. In each of these categories, WellPoint integrates best-of-breed capabilities, so that they are easy to implement and operate. In addition, the unique data-set that underlies WellPoint coalesces together health data, absenteeism data and wellness data to allow companies, together with Discovery, to manage the collective health of their employee base. The market response to WellPoint has been particularly positive and Discovery is optimistic about its prospects.

During the period, the performance of the DiscoveryCard was pleasing. The fundamental philosophy behind the DiscoveryCard is to create structures and services that differentiate Discovery's life and health insurance offerings – examples of this strategy include the DiscoveryCard Integrator for Discovery Life and the Health Plan Account for Discovery Health. Central to the strategy is DiscoveryCard's ability to offer added value as a credit card relative to other traditional credit cards in the market-place. During the period, a proliferation of bank and non-bank credit cards entered the market. Discovery is particularly pleased that the first substantial independent survey comparing the different value propositions rated the DiscoveryCard substantially ahead of its competitors. This bodes well for DiscoveryCard's ability to grow its membership base, to grow in profitability and to enhance Discovery's other offerings.

PROSPECTS

All of Discovery's businesses are well positioned for strong growth going forward without requiring additional capital.

By order of the board

LL Dippenaar
Chairman

A Gore
Chief Executive Officer

21 February 2007

Directors

LL Dippenaar (Chairman), A Gore (Chief Executive Officer), Dr BA Brink, JP Burger, Dr NJ Dlamini, SB Epstein (USA), PK Harris**, MI Hilkowitz (Israel), NS Koopowitz*, Dr TV Maphai, HP Mayers*, JM Robertson*, S Sebotsa, B Swartzberg*, SD Whyte*, SV Zilwa

*Executive **Appointed 15 February 2007

Transfer secretaries

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PO Box 61051, Marshalltown, 2107

Sponsors

Rand Merchant Bank (A division of FirstRand Bank Limited)

Secretary and registered office

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Tel: (011) 529 2888
Fax: (011) 529 2958

Discovery Holdings Limited
(Incorporated in the Republic of South Africa)
(Registration number: 1999/007789/06)
JSE share code: DSY
ISIN: ZAE000022331

INCOME STATEMENT

for the six months ended 31 December 2006

R million	Group Six months ended December 2006 Unaudited	Group Six months ended December 2005 Unaudited	% change	Group Year ended June 2006 Audited
Insurance premium revenue	**1 776**	1 286		2 824
Reinsurance premiums	**(292)**	(229)		(456)
Net insurance premiums	**1 484**	1 057		2 368
Fee income	**1 007**	922		1 961
Investment income	**77**	97		161
Net realised gains	**40**	50		157
Net fair value gains on financial assets at fair value through profit and loss	**93**	76		121
Vitality income	**355**	315		654
Net income	**3 056**	2 517		5 422
Insurance benefits and claims	**(952)**	(681)		(1 348)
Insurance claims recovered from reinsurers	**261**	201		374
Net insurance benefits and claims	**(691)**	(480)		(974)
Acquisition costs	**(509)**	(440)		(908)
Marketing and administration expenses	**(1 441)**	(1 288)		(2 624)
Transfer from assets/liabilities under insurance contracts	**325**	293		468
Fair value adjustment to liabilities under investment contracts	**(95)**	(76)		(121)
Profit before BEE expenses	**645**	526	23	1 263
BEE expenses	**(17)**	(144)		(161)
Profit from operations	**628**	382		1 102
Finance costs	**(11)**	(10)		(21)
Foreign exchange profit/(loss) – unrealised	**1**	–		(7)
Share of profit from associates	**2**	–		2
Profit before taxation	**620**	372	67	1 076
Taxation	**(216)**	(178)		(410)
Profit for the year	**404**	194	108	666
Attributable to:				
Equity holders	**403**	194		669
Minority interests	**1**	–		(3)
	404	194		666
Earnings per share for profit attributable to the equity holders (cents):				
– basic	**75,3**	36,8	105	126,5
– diluted	**72,1**	35,9	101	121,0
Weighted number of shares in issue (000's)	**535 202**	528 468		528 946
Diluted weighted number of shares (000's)	**591 953**	553 749		574 871

BALANCE SHEET

at 31 December 2006

R million	Group December 2006 Unaudited	Group June 2006 Audited
ASSETS		
Property and equipment	**189**	186
Intangible assets including deferred acquisition costs	**74**	66
Assets arising from insurance contracts	**2 812**	2 463
Investment in associates	**3**	7
Financial assets		
– Equity investments	**1 945**	1 600
– Government and public authority stocks	**323**	233
– Money market	**494**	206
– Equity-linked notes	**87**	77
– Loans and receivables including insurance receivables	**638**	559
Deferred income tax	**48**	41
Reinsurance assets	**37**	32
Current income tax assets	**18**	–
Cash and cash equivalents	**882**	1 322
Total assets	**7 550**	6 792
EQUITY		
Capital and reserves		
Share capital and share premium	**1 387**	1 348
Other reserves	**849**	640
Retained earnings	**2 471**	2 224
Total equity	**4 707**	4 212
LIABILITIES		
Liabilities arising from insurance contracts	**568**	464
Liabilities arising from reinsurance contracts	**22**	24
Financial liabilities		
– Investment contracts at fair value through profit and loss	**691**	604
– Borrowings at amortised cost	**133**	161
Deferred income tax	**659**	518
Deferred revenue	**159**	203
Provisions	**43**	36
Trade and other payables	**568**	522
Current income tax liabilities	**–**	48
Total liabilities	**2 843**	2 580
Total equity and liabilities	**7 550**	6 792
Net asset value per share (cents)	**875.9**	796.0
Number of shares in issue (000's)	**537 393**	529 134

CASH FLOW STATEMENT

for the six months ended 31 December 2006

R million	Group Six months ended December 2006 Unaudited	Group Six months ended December 2005 Unaudited	Group Year ended June 2006 Audited
Health	**389**	327	798
Life	**(97)**	(64)	(82)
Vitality	**27**	19	47
Holdings	**–**	(1)	(6)
Destiny	**(17)**	(90)	(66)
PruHealth	**(121)**	(73)	(140)
	181	118	551
Working capital changes	**32**	128	105
Cash generated by operations	**213**	246	656
Dividends received	**17**	15	33
Interest received	**59**	79	122
Interest paid	**(12)**	(5)	(22)
Taxation paid	**(187)**	(83)	(209)
Cash flow from operating activities	**90**	252	580
Cash flow from investing activities	**(388)**	(104)	(138)
Net purchases of investments	**(332)**	(42)	(46)
Purchases of property and equipment	**(37)**	(46)	(59)
Proceeds on disposal of property and equipment	**–**	–	1
Purchase of intangible assets	**(19)**	(16)	(34)
Cash flow from financing activities	**(144)**	(33)	(39)
Proceeds from issuance of ordinary shares	**44**	12	23
Share issue costs written off against share capital	**–**	(2)	(4)
Dividends paid	**(160)**	–	–
Dividends paid to Destiny Health preference shareholders	**–**	(1)	(1)
Minority share buy-back	**(3)**	–	(6)
(Repayment)/increase of borrowings	**(25)**	25	16
Redemption of Destiny preference shares	**–**	(67)	(67)
Net (decrease)/increase in cash and cash equivalents	**(442)**	115	403
Cash and cash equivalents at beginning of year	**1 322**	916	916
Exchange gains on cash and cash equivalents	**2**	–	3
Cash and cash equivalents at end of year	**882**	1 031	1 322

STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 December 2006

R million	Share capital and share premium	Share-based payment reserve	Reserve for revaluation of available-for-sale investments	Currency translation reserve	Hedging reserve	Retained earnings	Minority interest	Total
	Attributable to equity holders of the Company							
31 December 2006								
Balance at 1 July 2006	**1 348**	**205**	**319**	**112**	**4**	**2 224**	**–**	**4 212**
Issue of capital	**39**	**–**	**–**	**–**	**–**	**–**	**(1)**	**38**
Movement in share-based payment reserve	**–**	**27**	**–**	**–**	**–**	**–**	**–**	**27**
Unrealised gains on investments	**–**	**–**	**257**	**–**	**–**	**–**	**–**	**257**
Capital gains tax on unrealised gains on investments	**–**	**–**	**(34)**	**–**	**–**	**–**	**–**	**(34)**
Realised gains on investments transferred to income statement	**–**	**–**	**(40)**	**–**	**–**	**–**	**–**	**(40)**
Capital gains tax on realised gains on investments	**–**	**–**	**3**	**–**	**–**	**–**	**–**	**3**
Translation of foreign subsidiary	**–**	**–**	**–**	**3**	**–**	**–**	**–**	**3**
Transfer from hedging reserve	**–**	**–**	**–**	**–**	**(7)**	**–**	**–**	**(7)**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**403**	**1**	**404**
Dividends paid		**–**	**–**	**–**	**–**	**(155)**	**–**	**(155)**
Realised loss on minority share buy-back	**–**	**–**	**–**	**–**	**–**	**(1)**	**–**	**(1)**
Balance at 31 December 2006	**1 387**	**232**	**505**	**115**	**(3)**	**2 471**	**–**	**4 707**
31 December 2005								
Balance at 1 July 2005	1 336	20	209	98	3	1 557	67	3 290
Issue of capital	12	–	–	–	–	–	–	12
Share issue expenses	(2)	–	–	–	–	–	–	(2)
Movement in share-based payment reserve	–	157	–	–	–	–	–	157
Unrealised gains on investments	–	–	174	–	–	–	–	174
Capital gains tax on unrealised gains on investments	–	–	(19)	–	–	–	–	(19)
Realised gains on investments transferred to income statement	–	–	(49)	–	–	–	–	(49)
Capital gains tax on realised gains on investments	–	–	7	–	–	–	–	7
Transfer from hedging reserve	–	–	–	–	(3)	–	–	(3)
Translation of foreign subsidiary	–	–	–	(2)	–	–	–	(2)
Profit for the period	–	–	–	–	–	194	–	194
Redemption of Destiny Health preference shares	–	–	–	–	–	–	(67)	(67)
Balance at 31 December 2005	1 346	177	322	96	–	1 751	–	3 692

SEGMENTAL INFORMATION

for the six months ended 31 December 2006

R million	Health: South Africa	Health: United States of America	Health: United Kingdom	Life	Vitality	Total
31 December 2006						
New business annualised premium income*	**1 233**	**474**	**277**	**480**	**46**	**2 510**
Gross inflows under management*	**8 905**	**643**	**218**	**1 107**	**355**	**11 228**
Income statement						
Insurance premium revenue	**75**	**485**	**109**	**1 107**	**–**	**1 776**
Reinsurance premiums	**(1)**	**(35)**	**(3)**	**(253)**	**–**	**(292)**
Fee income	**1 006**	**–**	**–**	**1**	**–**	**1 007**
Investment income and gains	**26**	**6**	**3**	**169**	**6**	**210**
Vitality income	**–**	**–**	**–**	**–**	**355**	**355**
Net income	**1 106**	**456**	**109**	**1 024**	**361**	**3 056**
Insurance benefits and claims	**(59)**	**(363)**	**(84)**	**(446)**	**–**	**(952)**
Insurance claims recovered from reinsurers	**1**	**40**	**–**	**220**	**–**	**261**
Acquisition costs	**–**	**(22)**	**(14)**	**(443)**	**(30)**	**(509)**
Marketing and administration expenses	**(681)**	**(130)**	**(120)**	**(211)**	**(299)**	**(1 441)**
Transfer from assets/liabilities under insurance contracts	**1**	**(8)**	**(11)**	**343**	**–**	**325**
Fair value adjustment to liabilities under investment contracts	**–**	**–**	**–**	**(95)**	**–**	**(95)**
Expenses	**(738)**	**(483)**	**(229)**	**(632)**	**(329)**	**(2 411)**
Profit from operations	**368**	**(27)**	**(120)**	**392**	**32**	**645**
BEE expenses						**(17)**
Finance costs						**(11)**
Foreign exchange profit – unrealised						**1**
Share of profit from associates						**2**
Profit before taxation						**620**
Taxation						**(216)**
Profit for the year						**404**
31 December 2005						
New business annualised premium income*	1 211	383	77	392	51	2 114
Gross inflows under management*	7 874	647	43	820	315	9 699
Income statement						
Insurance premium revenue	9	436	21	820	–	1 286
Reinsurance premiums	(2)	(45)	–	(182)	–	(229)
Fee income	922	–	–	–	–	922
Investment income and gains	16	3	3	197	4	223
Vitality income	–	–	–	–	315	315
Net income	945	394	24	835	319	2 517
Insurance benefits and claims	(5)	(379)	(15)	(282)	–	(681)
Insurance claims recovered from reinsurers	–	40	–	161	–	201
Acquisition costs	–	(22)	(2)	(382)	(34)	(440)
Marketing and administration expenses	(659)	(110)	(72)	(182)	(265)	(1 288)
Transfer from assets/liabilities under insurance contracts	–	–	–	293	–	293
Fair value adjustment to liabilities under investment contracts	–	–	–	(76)	–	(76)
Expenses	(664)	(471)	(89)	(468)	(299)	(1 991)
Profit from operations	281	(77)	(65)	367	20	526
BEE expenses						(144)
Finance costs						(10)
Profit before taxation						372
Taxation						(178)
Profit for the year						194

** New business annualised premium income and gross inflows under management include flows of the schemes Discovery administers and 100% of the business conducted together with its joint venture partners.*

EMBEDDED VALUE STATEMENT

for the six months ended 31 December 2006

The embedded value of Discovery at 31 December 2006 is calculated as the sum of the following components:

- the excess assets over liabilities at the valuation date (ie net asset value); and
- the value of in-force business at the valuation date (less an allowance for the cost of capital and secondary tax on companies (STC)).

The value of in-force business is calculated as the value of projected future after-tax profits of the business in force at the valuation date, discounted at the risk discount rate.

Prior to 31 December 2005, Life based the embedded value on the Financial Soundness Valuation Method (FSV). A change in actuarial guidance note (PGN107) effective for financial year-ends on or after 31 December 2005 required long-term insurers to base the embedded value on the Statutory Valuation Method (SVM). The key difference between the two bases for Life is that the value capitalised in the assets under insurance contracts on the FSV basis may not be reflected as an insurance asset under the SVM. The net asset value shown on the published balance sheet has been adjusted to reflect the elimination of the assets under insurance contracts as per the Life statutory accounts. The value of the assets under insurance contracts on the FSV basis is released in the value of in-force of the Statutory Valuation Method over time. The capital maintained for Life throughout the projection term is based on the statutory capital as defined by the SVM.

The value of new business is determined at the point of sale as the projected future after-tax profits of the new business written by Discovery, discounted at the risk discount rate, less an allowance for the cost of capital and STC.

For PruHealth, no value has been placed on the current in-force business.

PricewaterhouseCoopers Assurance Services (Pty) Ltd has reviewed the methodology and assumptions used to determine the value of in-force business and the value of new business and have confirmed that, overall, they are reasonable.

Table 1: Group embedded value

R million	31 December 2006 10 year term for Health and Vitality	31 December 2006 20 year term for Health and Vitality(1)	31 December 2005	% change(2)	30 June 2006
Shareholders' funds	**4 707**	4 707	3 692	27	4 212
Elimination of assets under insurance contracts	**(2 394)**	(2 394)	(1 877)		(2 088)
Shareholders' funds excluding assets under insurance contracts	**2 313**	2 313	1 815		2 124
Value of in-force business before cost of capital	**9 793**	10 956	8 466		8 774
Cost of capital	**(132)**	(132)	(201)		(60)
Cost of STC(3)	**(262)**	(293)	-		(251)
Discovery Holdings embedded value	**11 712**	12 844	10 080	16	10 587
Number of shares (millions)	**537,4**	537,4	529,1		533,4
Embedded value per share	**R21,79**	R23,90	R19,05	14	R19,85
Diluted number of shares (millions)	**558,4**	559,5	553,2		553,2
Diluted embedded value per share(4)	**R21,27**	R23,29	R18,56	15	R19,47

(1) The term of the Health and Vitality projection is currently set at 10 years. There is significant value in the business after 10 years. Since it is managements' intention to move to a 20 year projection term for Health and Vitality in future, the results of the embedded value based on the extended term is also shown. For the 20 year term projection, the lapse rate assumption in the later years has been increased. The analysis of the change in embedded value below is based on a 10 year projection term. Note that the projection term of the Destiny Health and Group Life products has not been increased.

(2) This shows the change in values between December 2005 and December 2006 based on a 10 year term for Health and Vitality.

(3) In line with Discovery's current dividend policy, the cost of STC is calculated assuming a 4.5 times dividend cover on the after-tax profits as they emerge over the projection term. The total STC charge has been allocated between the different business entities based on their contribution to the total value of in-force. Prior to 2006, Discovery's policy was not to declare dividends and therefore no allowance was made in the embedded value calculation for STC. The cost of STC at 31 December 2005 would have been R238 million on the same basis.

(4) The diluted embedded value per share is calculated by increasing the embedded value by the value of the loan to the Discovery Holdings share trust, and by increasing the number of shares by the number of shares issued to the share incentive trust which have not been delivered to participants. An allowance has been made for Discovery's BEE transaction where the impact is dilutive i.e. where the current embedded value per share exceeds the current transaction value.

Table 2: Value of in-force business

R million	Value before cost of capital and STC	Cost of capital	Cost of STC	Value after cost of capital and STC
at 31 December 2006 – 10 year term for Health and Vitality				
Health and Vitality	4 431	–	(119)	4 312
Life(1)	5 330	(120)	(142)	5 068
Destiny Health(2)	32	(12)	(1)	19
Total	**9 793**	**(132)**	**(262)**	**9 399**
at 31 December 2006 – 20 year term for Health and Vitality				
Health and Vitality	5 594	–	(150)	5 444
Life(1)	5 330	(120)	(142)	5 068
Destiny Health(2)	32	(12)	(1)	19
Total	**10 956**	**(132)**	**(293)**	**10 531**
at 30 June 2006				
Health and Vitality	4 258	–	(122)	4 136
Life(1)	4 496	(45)	(129)	4 322
Destiny Health	20	(15)	(0)	5
Total	**8 774**	**(60)**	**(251)**	**8 463**

(1) On the SVM basis, the Life cost of capital is based on a capital adequacy requirement at December 2006 of R126 million. (June 2006: R94 million on the SVM basis).

(2) The values for Destiny Health reflect Discovery's 98.12% shareholding in Destiny Health at 31 December 2006.

Table 3: Group embedded value earnings

R million	Six months ended 31 December 2006	Six months ended 31 December 2005	Year ended 30 June 2006
Embedded value at end of period	**11 712**	10 080	10 587
Less: Embedded value at beginning of period	**(10 587)**	(9 173)	(9 173)
Increase in embedded value	**1 125**	907	1 414
Net issue of capital	**(38)**	(10)	(12)
Dividends paid	**155**	–	1
Realised loss on minority share buy-back	**1**	–	1
Transfer to hedging reserve	**7**	3	(1)
Embedded value earnings	**1 250**	900	1 403
Annualised return on embedded value	**25,0%**	20,6%	15,3%

Table 4: Components of Group embedded value earnings

R million	Six months ended 31 December 2006	Six months ended 31 December 2005	% change	Year ended 30 June 2006
Total profit from new business (at point of sale)	**348**	379	(8)	572
Profit from existing business				
* Expected return	**502**	342		756
* Change in methodology and assumptions(1)	**(52)**	(35)		(540)
* Experience variances(2)	**312**	71		262
Acquisition costs(3)	**(49)**	(58)		–
PruHealth and other new initiative costs	**(112)**	(56)		(128)
Adjustment for minority interest in Destiny Health	**(1)**	3		10
Adjustment for Guardian profit share in Destiny Health(4)	**15**	(8)		1
Foreign exchange rate movements	**2**	(18)		(4)
Cost of STC	**3**	-		-
Return on shareholders' funds(5)	**282**	280		474
Embedded value earnings	**1 250**	900	39	1 403

(1) The change in methodology and assumptions item will vary over time to reflect adjustments to the model and assumptions as a result of changes to the operating and economic environment. The current period's changes are described in detail in Table 5 below (for previous periods refer to previous embedded value statements). The methodology and assumption changes for December 2006 are based on the SVM method. The methodology and assumption changes for December 2005 and June 2006 are based on the FSV methodology.

(2) The experience variances for December 2006 are shown on the SVM methodology. The experience variances for December 2005 and June 2006 are shown on the FSV methodology.

(3) A large proportion of Health and Vitality new business was written over the period but only activated on 1 January 2007. Acquisition costs of R32 million (December 2005: R45 million) arise in respect of these members who are not included in the embedded value calculation. Similarly acquisition costs of R7 million (December 2005: R13 million) relate to Destiny Health and R10 million (December 2005: –) relate to Life. These acquisition costs are not included in the calculation of the value of new business.

(4) The agreement, in terms of which Guardian shares in 50% of the profits from business written by Destiny Health prior to the agreement with Guardian (i.e. non-alliance business), has been unwound.

(5) Return on shareholders' funds is shown net of tax and management charges under the SVM method.

Table 5: Methodology and assumption changes

for the six months ended 31 December 2006

R million	Health and Vitality: Net worth	Health and Vitality: Value of in-force	Destiny Health: Net worth	Destiny Health: Value of in-force	Life: Net worth	Life: Value of in-force	Total
Modelling changes(1)	–	–	–	–	(1)	(47)	(48)
Cost of capital modelling changes(2)	–	–	–	–	–	(27)	(27)
Economic assumptions	–	22	–	–	(0)	114	136
VAT assumption(3)	–	(200)	–	–	–	–	(200)
Benefit enhancements(4)	–	–	–	–	–	(9)	(9)
Expenses(5)	–	78	–	27	1	(4)	102
Vitality benefits	–	(11)	–	3	–	–	(8)
Other	–	–	–	2	–	–	2
Total	–	(111)	–	32	(0)	27	(52)

(1) The Life modelling changes primarily relate to the modelling of future commission payments.

(2) The cost of capital modelling change primarily relates to a change in the projection of future capital requirements and the costs associated with future capital requirements. In addition, the cost of capital now assumes that the capital adequacy requirement is backed by assets consisting of 100% equities in all future periods. Previously, it was assumed to be backed by assets consisting of 70% equities and 30% fixed interest securities.

(3) This reflects an increase in the average VAT rate modelled.

(4) The Life benefit enhancements relate primarily to enhancements on the Health Plan Protector product.

(5) The Health, Vitality and Destiny Health renewal expense assumption change is based on the results of the most recent expense and budget information.

Table 6: Experience variances

for the six months ended 31 December 2006

R million	Health and Vitality: Net worth	Health and Vitality: Value of in-force	Destiny Health: Net worth	Destiny Health: Value of in-force	Life: Net worth	Life: Value of in-force	Total
Renewal expenses	20	–	(7)	–	1	–	14
Economic assumptions(1)	–	106	–	–	0	(9)	97
Extended modelling term(2)	–	123	–	3	–	3	129
Lapses(3)	2	58	(2)	(22)	(4)	9	41
Cancellations(4)	–	–	–	–	6	(42)	(36)
Policy alterations	–	5	–	5	4	75	89
Premium increases	–	–	(0)	(28)	(3)	8	(23)
Mortality and morbidity	–	–	(10)	–	15	11	16
Deferred profits released	–	–	–	–	20	(20)	–
Tax	(4)	–	–	–	(4)	4	(4)
Admin fees	–	–	–	–	(1)	–	(1)
Other(5)	19	1	(4)	(5)	(29)	8	(10)
Total	37	293	(23)	(47)	5	47	312

(1) The Health and Vitality economic assumptions variance reflects a higher than expected administration and managed care inflationary increase in 2007.

(2) The projection term for Health, Vitality, Destiny Health and Group Life at 31 December 2006 has not been changed from the 10 year term used at 30 June 2006. Thus, an experience variance arises because the total term of the in-force business is effectively increased by six months.

(3) Included in the Health and Vitality lapse experience variance is an amount of R174 million in respect of members joining existing employer groups during the period, offset by an amount of R160 million in respect of members leaving existing employer groups. A positive variance of R46 million is due to lower than expected lapses.

(4) Backdated cancellations are in respect of policies cancelled to the inception date with a corresponding refund of premiums.

(5) Other variances for Life primarily relate to timing differences between projected and actual cashflows.

Table 7: Embedded value of new business

R million	Six months ended 31 December 2006 10 year term for Health and Vitality	Six months ended 31 December 2006 20 year term for Health and Vitality	Six months ended 31 December 2005	% change(1)	Year ended 30 June 2006
Health and Vitality					
Gross profit from new business at point of sale	**44**	69	60		115
Cost of capital	**–**	–	–		–
Cost of STC	**(2)**	(4)	–		(3)
Net profit from new business at point of sale	**42**	65	60	(30)	112
New business annualised premium income(2)	**370**	370	369	0	1 121
Life					
Gross profit from new business at point of sale	**374**	374	332		532
Cost of capital	**(18)**	(18)	(27)		(7)
Cost of STC	**(10)**	(10)	–		(15)
Net profit from new business at point of sale	**346**	346	305	13	510
New business annualised premium income(3)	**359**	359	276	30	592
Annualised profit margin(4)	**10,7%**	10,7%	13,3%		10,8%
Destiny Health					
Gross profit from new business at point of sale	**(40)**	(40)	15		(50)
Cost of capital	**(0)**	(0)	(1)		(0)
Cost of STC	**0**	0	–		0
Net profit from new business at point of sale(5)	**(40)**	(40)	14		(50)
New business annualised premium income(2)	**219**	219	246	(11)	457
New business annualised premium income (US$ million)	**30**	30	38	(21)	71

(1) This shows the change in values between December 2005 and December 2006 based on a 10 year term for Health and Vitality.

(2) Health and Destiny Health new business annualised premium income is the gross contribution. For embedded value purposes, Health and Destiny Health new business is defined as individuals and members of new employer groups, and includes additions to first year business.

The new business annualised premium income shown above has been adjusted to exclude premiums in respect of members who join an existing employer after the first year, as well as premiums in respect of new business written during the period but only activated after 31 December 2006.

The total Health and Vitality new business annualised premium income written over the period was R1 279 million (December 2005: R1 262 million).

For Destiny Health, the total new business annualised premium income written over the period was R474 million (December 2005: R383 million).

(3) Life new business is defined as policies which incepted during the reporting period and which are on risk at the valuation date.

The new business annualised premium income of R359 million shown above is net of automatic premium increases and servicing increases in respect of existing business. The total Life new business annualised premium income written over the period, including both automatic premium increases of R72 million and servicing increases of R49 million was R480 million. Single premium business is included at 10% of the value of the single premium.

Discovery Retirement Optimisers added to existing Life Plans have been included in the value of new business.

(4) The annualised profit margin is the value of new business expressed as a percentage of the present value of future premiums.

(5) The Destiny Health value of new business allows for the actual new business expenses incurred over the past six months. This value includes acquisition costs in respect of Tufts new business written over the past six months which is expected to run-off over the next year.

Table 8: Embedded value assumptions

	31 December 2006	31 December 2005	30 June 2006
Risk discount rate (%)			
– Health and Vitality	**11,25**	10,25	12,00
– Life	**11,25**	10,25	12,00
– Destiny Health	**10,00**	10,00	10,00
Medical inflation (%)			
South Africa	**7,25**	6,75	8,00
United States	**13,00**	Current levels reducing to 12.50% over the projection period	Current levels reducing to 13.00% over the projection period
Expense inflation (%)			
South Africa	**4,25**	3,75	5,00
United States	**3,00**	3,00	3,00
Pre-tax investment return (%)			
South Africa – Cash	**6,75**	5,75	7,50
– Bonds	**8,25**	7,25	9,00
– Equity	**10,25**	9,25	11,00
United States – Bonds	**3,00**	3,00	3,00
Dividend cover ratio	**4,5 times**	-	4,5 times
Income tax rate (%)			
– South Africa	**29,00**	29,00	29,00
– United States Federal Tax Rate(1)	**34,00**	34,00	34,00

(1) Various additional State taxes also apply

Life mortality, morbidity and lapse assumptions were derived from internal experience, where available, augmented by reinsurance and industry information.

The Health lapse assumptions were based on the results of recent experience investigations. The lapse rate for the projection term after 10 years was increased above current experience.

The Destiny Health morbidity and lapse assumptions were based on the results of recent experience investigations.

Renewal expense assumptions were based on the results of the latest expense and budget information. A notional allocation of corporate overhead expenses has been made to each of the subsidiary companies based on managements' view of each subsidiary's contribution to overheads.

The investment return assumption was based on a single interest rate derived from the risk free zero coupon yield curve. Other economic assumptions were set relative to this yield. The risk discount rate has been set relative to the risk-free rate, increased by a risk premium. The current and projected tax position of the policyholder funds within the Life company has been taken into account in determining the net investment return assumption.

It was assumed that the capital adequacy requirements in future years will be backed by surplus assets consisting of 100% equities for the purposes of calculating the cost of capital at risk. Allowance has been made for tax and investment expenses in the calculation of the cost of capital.

REVIEW OF GROUP RESULTS

Gross inflows under management increased 16% for the six months ended 31 December 2006. Gross inflows under management includes flows of the schemes Discovery administers and 100% of the business conducted together with its joint venture partners.

Gross inflows under management

	December 2006 R million	December 2005 R million	% change
Discovery Health	**8 905**	7 874	13
Discovery Life	**1 107**	820	35
Discovery Vitality	**355**	315	13
Destiny Health	**643**	647	(1)
PruHealth	**218**	43	
Gross inflows under management	**11 228**	9 699	16
Less: collected on behalf of third parties	**(8 090)**	(7 176)	
Discovery Health	**(7 824)**	(6 943)	
Destiny Health	**(157)**	(211)	
PruHealth	**(109)**	(22)	
Gross income of Group	**3 138**	2 523	24

Earnings

The following table shows the main components of the increase in Group profit from operations excluding investment income for the six months:

Earnings source

	December 2006 R million	December 2005 R million	% change
Discovery Health	**342**	265	29
Discovery Life	**318**	246	29
Discovery Vitality	**26**	16	63
Destiny Health	**(33)**	(80)	59
PruHealth	**(123)**	(68)	(81)
Group operating profit before investment income	**530**	379	40
Investment income	**77**	97	(21)
Realised and unrealised gains and losses	**133**	126	6
Fair value adjustment to liabilities under investment contracts	**(95)**	(76)	(25)
Profit from operations before BEE expense	**645**	526	23

Headline Earnings

Headline earnings increased by 29% excluding the impact of the BEE transaction.

Unrealised gains of R257 million on available-for-sale investments for the six months have been taken directly to equity and are not included in earnings or headline earnings.

The reconciliation between earnings and headline earnings is shown below:

	December 2006 R million	December 2005 R million	% change
Net profit attributable to equity shareholders	**403**	194	108
Adjustment for realised profit on available-for-sale investments net of CGT	**(37)**	(42)	
Headline earnings	**366**	152	141
BEE expenses	**17**	144	
Headline earnings before BEE transaction	**383**	296	29
Headline earnings per share before BEE transaction (cents)*:			
– undiluted	**71,6**	56,1	28
– diluted	**70,1**	54,3	29
Headline earnings per share (cents):			
– undiluted	**68,4**	28,8	138
– diluted	**65,9**	28,3	133

** For this purpose, the impact of the BEE deal has been excluded from both earnings and the number of shares in issue.*

Taxation

All South African entities are in a tax paying position. Destiny operations have significant tax losses but no deferred tax asset has been accounted for on the foreign losses incurred in the US.

An asset has been accounted for on 50% of the PruHealth losses for which Group tax relief is available to Prudential plc in the UK. No deferred tax asset has been accounted for on the balance of the PruHealth losses.

Investments

Equity investments have increased due to additional investments and the continued strong performance of the equity markets.

Balance Sheet

The increase in the assets arising from insurance contracts of R349 million is as a result of profitable new business written by Discovery Life.

The deferred tax liability is primarily attributable to the application of the Financial Services Board directive 145. This directive allows for the zeroing on a statutory basis of the assets arising from insurance contracts. The statutory basis is used when calculating tax payable for Discovery Life, resulting in a timing difference between the tax base and the accounting base.

Subsequent to 31 December 2006, PruHealth entered into a reinsurance contract which will have the effect of reducing PruHealth's capital requirements.

Share-based payments

The special purpose vehicles and trusts to which Discovery issued 38,7 million shares in terms of its BEE transaction, have been consolidated into the accounts of Discovery, eliminating the share issue.

These shares have been included in the calculation of diluted HEPS and diluted EPS.

The BEE transaction has resulted in a charge to the income statement of R17 million in the 6 month period ended 31 December 2006 (December 2005: R144 million) in accordance with the requirements of IFRS 2.

An additional R26 million (December 2005: R13 million) in respect of options granted under employee share incentive schemes has been expensed in the income statement for the six months in accordance with the requirements of IFRS 2.

Accounting policies

The interim financial statements have been prepared in accordance with IFRS as well as the South African Companies Act 61 of 1973, as amended, and are consistent with the accounting policies applied in the previous financial reporting period.

The interim financial statements do not include all of the information required for full annual financial statements.

Directorate

Mr PK Harris was appointed as a non-executive director to the board of Discovery with effect from 15 February 2007.

Dividend policy and capital

The directors are of the view that the Discovery Group is adequately capitalised at this time.

On the statutory basis the capital adequacy requirements of Discovery Life were R126,4 million (2005: R96,1 million) and were covered 12,4 times (2005: 12,5 times).

Dividend declaration

The board has declared a dividend of 16 cents per share. The salient dates are as follows:

– Last date to trade "cum" dividend	Friday, 23 March 2007
– Date trading commences "ex" dividend	Monday, 26 March 2007
– Record date	Friday, 30 March 2007
– Date of payment	Monday, 2 April 2007

Share certificates may not be dematerialised or rematerialised between Monday, 26 March 2007 and Friday, 30 March 2007, both days inclusive.